

# The Natural Energy Solution

An Interview with T. Boone Pickens, Founder, BP Capital

**EDITORS' NOTE** T. Boone Pickens left the company he founded, Mesa Petroleum, in 1996 and formed BP Capital, an energy focused hedge fund dealing in both commodities and equities. He is the architect of the Pickens Plan to enhance U.S. energy security through an expanded use of renewables in power generation and by increasing the use of America's abundant supply of lower-cost, cleaner-burning natural gas in heavy duty transportation applications to replace OPEC oil/diesel/gasoline. He argues that dependency is a key threat to the U.S. economy and national security.



T. Boone Pickens

**COMPANY BRIEF** BPC is a Commodity Pool Operator and General Partner for the BP Capital Energy Fund, L.P. ("the Energy Fund"), and TBP is a Commodity Pool Operator and General Partner of BP Capital Management, L.P., the General Partner of BP Capital Energy Equity Fund II, L.P. ("the Equity Fund"). Collectively, TBP and BPC are referred to as BP Capital ([www.bpcap.net](http://www.bpcap.net)). BPC and TBP are private investment firms that focus on investments in energy futures and stocks of public companies in various energy sectors and energy dependent industries.

## What are the next steps toward realistic energy policy?

A few years ago, the technology started advancing in the oil and gas industry in the U.S. – that was fracking combined with horizontal drilling. We had plenty of resources in America that would be developed and I predicted that things would dramatically change in terms of energy.

Those who were against it had a fear that what I was talking about would run up the price of natural gas. But we have plenty of natural gas for whatever we want to use it for and the price has remained stable.

We can rebuild the economy using the cheapest energy in the world; our oil is cheaper by 25 percent; our natural gas is cheaper by 75 percent; and our gasoline is half the price of most of the rest of the world.

With some planning, we can make these things happen faster and give the economy a shot in the arm, but there is no focus on it.

## What is the solution in simple terms?

What we were trying to accomplish with the Natural Gas Act was to give a tax credit for development and a pay for through user pay, similar to a toll road. The volumes of natural gas would increase and the taxes on the natural gas by the user would be a huge pay back to the government.

I became concerned about it because I could see they were going to limit the tax credit to three years, which was alright with me if they took the pay for off as well, but they were not going to do that.

The steps to where we want to go are underway and that is, heavy duty trucks are moving toward natural gas and away from diesel because it's more cost efficient. They're almost forced to do it because of the competition.

Also, Washington has to get educated on energy issues and quit letting the free market guys tell us we need to let the free market dictate energy policy. There is no question that the free market is manipulated by OPEC. We have eight million trucks that can use natural gas easily. Give them a tax credit, get the pay for in it, and do it. You have two fuels: one is diesel – consider that to be from OPEC – and the other one is natural gas, which is from the U.S. If you don't choose either, you get OPEC. It just so happens the U.S. fuel is 30 percent cleaner and substantially cheaper so you have every reason to be in favor of picking that.

## What is the impact of OPEC? Is this not only an energy issue but also a national security issue?

We import 11 million barrels per day and half of it comes from OPEC. Do you know how many barrels of oil come through the Strait of Hormuz every day? Seventeen million. The Fifth Fleet protects that oil to keep it moving throughout the world.

Of the 17 million, 12 percent comes here – fewer than two million barrels a day. So why are we the ones protecting it? There are 11 aircraft carriers in the world that are operating. They're all ours, although China is building one.

Now you start to wonder, are we very smart to be the only ones with nuclear aircraft carriers? Our people are getting killed all over

the world and none of these other countries are having the same experience.

Why are we in the Mid-East with the Fifth Fleet protecting the Strait of Hormuz and only getting two million barrels of oil? All you have to do with those eight million trucks in the U.S. is switch them to natural gas and then we wouldn't have to worry about it.

Let's figure out how to cut our military costs and get out of the Mid-East and not be dependent on oil out of the Persian Gulf. It's simple to do.

## Is there a realistic chance for a formal North American energy alliance with Mexico and Canada?

We have every reason to make an alliance like that because they already sell us oil from Canada and Mexico. We sell Mexico a lot of gasoline because our refineries are very good and we sell a lot of natural gas. All of it is friendly and keeps us out of the Mid-East, Venezuela, and Africa, and it can be accomplished via relationships in Washington.

## How do you persist when there is so much frustration?

You can't give up because it's important to the country. Forty years ago, we started the SPR – Strategic Petroleum Reserve. If we kept half of it, we'd be well protected. It can be fed back into the market over a period of time. It has cost us \$28 per barrel and it's worth \$96 per barrel. But nobody says, "We ought to discuss some of these things."

Two-thirds of the trade deficit is a purchase of foreign oil, and we can fix that quickly if folks are ready. But there are also special interests involved in this thing.

Natural gas today is \$3. If you double natural gas from \$3 to \$6, you will put many drilling rigs to work. Each dollar increase in the price of natural gas only increases the per gallon cost of natural gas by 14 cents a gallon, so a move from \$3 to \$6 increases the cost by 42 cents a gallon equivalent.

Pilot Flying J in partnership with Clean Energy Fuels has built 75 stations on the Interstate for LNG and they will build another 75 this year, so truckers can go coast to coast and border to border on natural gas.

To date, I've spent over \$100 million trying to get this story told, but I've gotten my money's worth because we are clearly making progress. ●